

Office of the Auditor General
Audit of Benefits Processing - Long-Term
Disability (LTD)



December 2021

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Acknowledgement

The team responsible for this audit was comprised of Louise Proulx from the Office of the Auditor General and BDO Canada LLP, under the supervision of Ed Miner, Deputy Auditor General and my direction. My colleagues and I would like to thank those individuals who contributed to this project, and particularly, those who provided insights and comments as part of this audit.

Respectfully,

A handwritten signature in blue ink, appearing to read "N. Gougeon".

Nathalie Gougeon, CPA, CA, CIA, CRMA, B.Comm.

Auditor General

Introduction

The Audit of Benefits Processing - Long-Term Disability (LTD) was included in the 2018 Audit Work Plan of the Office of the Auditor General (OAG), approved by Council on November 22, 2017.

Background and context

The City of Ottawa provides its employees with group benefits plans in accordance with employee collective agreements and City policies. These plans include long-term disability (LTD) benefits which provide financial assistance when an employee is unable to work due to a non-occupational accident, illness or injury. Depending on the nature of the disability, the benefit can provide income replacement up to age 65. LTD is currently administered for the City by the Canada Life Assurance Company (“Canada Life”) (formerly The Great-West Life Assurance Company). Internal administration of the City’s group benefit program is coordinated through the City’s Human Resources Services (HRS).

Human Resources Services

HRS leads the management of the LTD benefits process within the City and collaborates with Canada Life throughout the claims’ management lifecycle. In 2019, HRS included five branches: HR Business Services, Total Rewards, HR Innovative Solutions, HR Programs & Planning and HR Strategic Projects.

Two of these five branches play a significant role regarding the processing of LTD benefits.

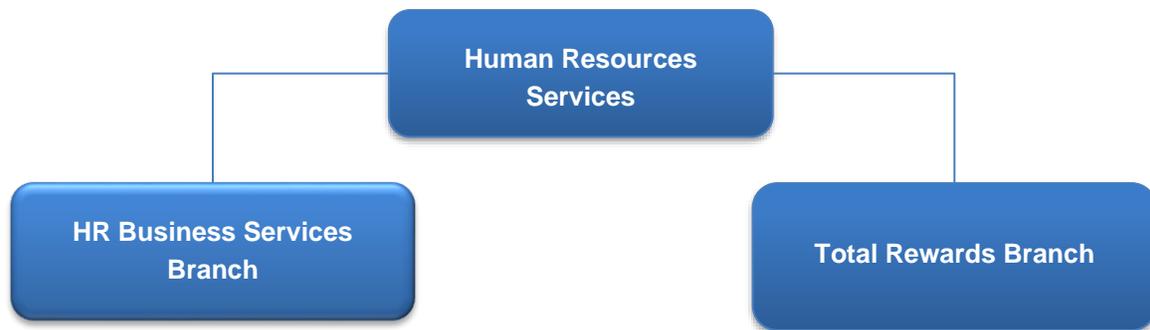


Figure 1: Organizational structure of HRS branches involved in LTD

The HR Business Services (HRBS) Branch operates on a hub model and is responsible for the administration of LTD claims. Nine Disability Management Consultants (DMCs) within HRBS act as the City’s main point of contact for all LTD claims. This includes:

- Supporting employees going on, or returning from, a long-term disability absence;
- Coordinating with Canada Life and Payroll, Pensions and Benefits Service during the processing of LTD claims; and
- Liaising with City managers to facilitate return to work.

The Total Rewards Branch is responsible for planning and implementing benefits and wellness programs, including programs related to LTD.

In 2019, DMCs supported the processing of 320 LTD applications and managed LTD benefits for over 600 employees. LTD costs for the City of Ottawa were \$27.7M in 2019. Additional LTD statistics for 2019 are provided in Figure 2 below.

Figure 2: 2019 Statistics on the Number of Claimants and Costs related to LTD

Full Year (January – December 2019)	Number of Employees/Claimants
Pending LTD applications as at January 1, 2019	39
New applications for LTD benefits in 2019	307
LTD applications processed	320
LTD benefits approved	275
LTD benefits denied	45
Number of employees on LTD as at January 1	610
Number of employees on LTD as at December 31	666
2019 LTD cost to the City of Ottawa	\$27,748,000

A number of different groups are involved in initiating and managing LTD claims, as well as facilitating the return to work. The role of these groups, in each of these processes, is described in Appendix 2.

In addition to supporting the management of LTD claims and benefits, HRS works towards the prevention of workplace injuries and illnesses and LTD claims through the implementation of an Employee and Family Assistance Program (EFAP). The EFAP is available to support employees who may have to cope with different life challenges. HRS has also implemented three Canada Life wellness programs in part to reduce LTD claims or decrease the duration of LTD benefits for employees already on long-term disability.

Audit objective and scope

The overall objective of this audit was to provide Council with reasonable assurance that the City of Ottawa’s management of the Long-Term Disability Benefits program is adequate.

The scope of this audit included:

- Management and operational activities related to long-term disability benefits for selected employees¹; and
- Health and wellness programs available to City employees.

Transactions from January 2019 to December 2019 were reviewed.

Conclusion

Based on the work conducted, the audit determined that, overall, the City of Ottawa’s management of the Long-Term Disability Benefits program is adequate. However, the audit identified a few areas where improvements could enhance the management of the program. These include having clearer and better

¹ Selected employees included City of Ottawa employees under Long Term Disability Policy #59211 and #59213, excluding employees from the Ottawa Police Service.

communicated roles, responsibilities, guidance, procedures, and service standards. Collectively, these improvements will contribute to preventing delays, inefficiencies (e.g., reducing the number of times DMCs ask for the same information), and inconsistencies when processing LTD claims and managing LTD benefits. There is also an opportunity to improve how the processing of LTD claims are monitored to better assess whether corrective actions are required. Additional opportunities to improve benefits processing of long-term disability were outlined in a management letter provided directly to management.

Audit findings and recommendations

Audit objective 1: Roles and Responsibilities and Procedures

1.1 Documentation and communication of Roles, Responsibilities and Procedures

Documents outlining roles, responsibilities, and procedures are important to ensure that employees involved in the management of LTD claims and benefits know how to perform their tasks effectively and efficiently. The audit found that HRS has developed several documents outlining roles, responsibilities, and procedures for City employees, including Disability Management Consultants (DMCs), other HRS personnel, Payroll employees, and managers/supervisors who are involved in the management of LTD claims and benefits. However, this information is fragmented among many different documents, some of which are outdated and do not reflect current practices. Procedural documents are also lacking service standards to guide the amount of time within which various employees should complete specific tasks.

Despite the lack of documented service standards, most HRS and other interviewed City employees understood their roles and responsibilities, as well as the steps required to manage LTD claims and benefits. However, many employees were not aware that documents describing roles, responsibilities, and procedures existed, or did not know where to locate them. The audit found that these documents are not stored in one place, but rather in a number of separate repositories which are not linked (e.g., the City's intranet, as well as branch SharePoint² sites and shared drives). The audit also found that HRS does not have a communication strategy to indicate to employees where these documents are stored or to specify how LTD roles, responsibilities, and procedures are to be communicated and made accessible to City employees.

Without clear and consistently documented roles, responsibilities, and procedures that employees are aware of and have access to, there is a risk that City employees involved in the management of LTD claims and benefits may not perform their tasks as effectively and efficiently as possible.

Conclusion

Documents outlining roles, responsibilities and procedures need to be updated to ensure consistent expectations and should be clearly communicated to promote effective and efficient management of LTD claims and benefits. Roles, responsibilities, and procedures documents that are unknown to employees or not easily accessible can lead to ineffective and inefficient management of LTD claims and benefits.

Recommendation 1 – Update, consolidate to one repository and communicate roles and responsibilities

The Director, Human Resources Services should review, update, and consolidate documents outlining roles, responsibilities, and procedures for the management of LTD claims and benefits to ensure they are clearly understood and communicated, represent current practices, and are conducive to effective and efficient execution of tasks. The review and communication of roles and responsibilities documents should be conducted annually, or as required by operational changes.

² SharePoint is a Cloud-based service that assist the City in sharing and collaborating with colleagues and clients across the Corporation. SharePoint enables users to access internal sites, documents, and other information from anywhere at the office, at home, or from a mobile device.

Management Response 1

Management agrees with the recommendation.

Human Resources has developed an Employee Guide to Long-Term Disability and an Employer Guide to Long-Term Disability to ensure that both employees and managers understand their roles and responsibilities in the long-term disability management process. The guides will be reviewed annually, or as warranted by operational changes, and update accordingly.

Detailed process maps for the LTD process were updated and will be reviewed annually, or as warranted. All documents are available on an internal SharePoint site accessible to City staff involved in the administration of the LTD management process which includes and consolidates all related procedures, guides, processes and role/responsibility documentation.

Human Resources has developed annual communications to be circulated in January of each year reminding all City staff of the availability of the Employee and Employer Guides and of their roles/responsibilities in the LTD process. Separate internal communications will be sent to City staff involved in the administration of LTD reminding them of the availability and location of all supporting documentation. This recommendation will be completed by the end of Q1 2022 and will be ready for OAG review by Q4 2022.

Audit objective 2: Consistent and Efficient Management

2.1 Monitoring and Reporting Program Performance

Effective program performance monitoring is important to ensure consistent and efficient delivery of LTD claims and benefits. The audit found that HRS relies on Canada Life to monitor and report on the performance of the LTD program against industry service standards, policies, and procedures. The performance information received from Canada Life is self-reported and is not further assessed by HRS to determine if expected performance is being met. Without a performance monitoring and reporting framework that is independent of Canada Life, there is a risk that HRS does not have the information that it needs to oversee the LTD claims and benefit process.

Similarly, HRS does not currently have a set approach for reporting LTD performance issues to City’s Senior Leadership Team (SLT) on a periodic basis. In fact, HRS decided to put formal reporting to SLT of LTD and employee health and wellness on hold in 2019. As a result, program performance insight from the Canada Life LTD performance documents is not formally reported to SLT.

Conclusion

The absence of a performance monitoring framework managed by HRS limits their ability to oversee the effectiveness of the LTD claims and benefits process.

Recommendation 2 - Develop an LTD Performance Monitoring and Reporting Framework

The Director, Human Resources Services should develop a performance monitoring and reporting framework, with periodic communication to the SLT, to ensure appropriate oversight over the delivery of the LTD program and inform decision-making made at the SLT level.

Management Response 2

Management agrees with the recommendation.

Human Resources is working with the City's External Benefits Consultant to implement a performance monitoring and reporting framework. The framework will ensure that the City is effectively managing performance and responsiveness of the Insurer and regularly reporting risks and issues to the Senior Leadership Team (SLT). This work will be completed by the end of Q1 2022 and will be ready for OAG review by Q4 2022.

The City receives regular semi-annual LTD trend reports from the Insurer, which will be provided to SLT in Q2 and Q4 of each year. City-wide Wellness Scorecards, developed in late-2020 will be provided to SLT within ten (10) weeks of the close of each quarter. Reports have been provided to SLT for the reporting period of January to June 2021.

2.2 Effective Management of LTD Claims

We reviewed 25 LTD claims to assess if they were managed as per the process in place for initiating and managing LTD claims and facilitating the return to work (see Appendix 2 for an overview of these processes and the roles of various parties).

In general, the audit found that the process was followed and that activities were conducted in accordance with established policies, procedures, and service standards. For example, in all five cases involving employees returning to work after being on LTD, DMCs engaged with branch managers and supervisors.

However, the audit also identified process delays in some instances. In 3 of the 25 cases we reviewed, the DMCs were not promptly made aware of an employee's absence and as such, the LTD application package was not provided to the employee within the set eight-week standard. Such delays can result in the employee not receiving LTD benefits at the beginning of the LTD period. There is an opportunity for HRS to remind employees and supervisors of their responsibilities related to LTD so that employees' absences are communicated promptly.

The audit also found inconsistencies and inefficiencies due to a lack of established service standards to guide the amount of time that various employees have to complete specific tasks. For example, we found that there are no established service standards for DMCs to provide required employee information to Canada Life. In the absence of a formal service standard, DMCs are using an informal two-week service standard. However, in one-third of the cases we reviewed, DMCs did not provide the required information to Canada Life within that time. Untimely submission of information to Canada Life can delay the processing of LTD claims and prevent employees from receiving their LTD benefits at the beginning of the LTD period. There is an opportunity for HRS to formalize this requirement and related procedures.

The audit found that in 4 of the 25 cases reviewed, the City temporarily overpaid LTD benefits to employees for a total of approximately \$10,000. Due to the complexity of coordinating the starting and stopping of City payroll and Canada Life LTD payments, this rate of temporary overpayments is not unexpected or unusual. However, even temporary overpayments result in additional time and effort spent by HRS and Payroll staff to reconcile and make the appropriate adjustments after the fact. Although the four overpayments that we reviewed were all corrected, there is an inherent risk of such overpayments going undetected and uncollected. Without formal process expectations and service standards to support

the management of LTD claims and benefits, there is a risk of delays, inconsistencies, and inefficiencies in the process. There is also a risk that inconsistent processing of LTD claims could create underpayments or overpayments for employees, some of which may not be detected and corrected.

Conclusion

For the most part, reviewed claims were managed in accordance with policies and procedures. However, at this time there is no formal mechanisms or process in place to monitor or report to the senior leadership team how Canada Life is meeting their service standards, and how the City is meeting its service standards. Additionally, there are aspects of the process that do not currently have services standards established (e.g., standard for DMC to submit the Employer Statement and Medical Information to Canada Life). Without fully defined and formalized standards, paired with an effective monitoring regime, there is a risk that inconsistencies or inefficiencies will not be identified or addressed, resulting in increased costs to the City and process delays.

Recommendation 3 - Clarification of LTD Claim Processing

The Director, Human Resources Services should clarify and formalize expectations pertaining to services standards with Canada Life and how these should be monitored and reported on. Specifically, this should include clarifying existing/developing new service standards and monitoring procedures to be followed to ensure that delivery of LTD benefits is efficient, and claims are processed in a fiscally responsible and timely manner.

Management Response 3

Management agrees with the recommendation.

In consultation with the Insurer, Human Resources has published updated detailed process maps outlining all key service standards, requirements and expectations.

Human Resources reviews all quarterly and semi-annual reporting provided by the Insurer and develops action and response plans which are reviewed at regular tri-party bi-monthly business meeting between the City, the External Benefits Consultant and the Insurer to ensure all concerns and issues are addressed promptly and efficiently. This work will be completed and ready for OAG review by the end of Q4 2022.

Recommendation 4 - Compliance Monitoring

The Director, Human Resources Services should develop an approach to monitor the compliance of LTD claim processing with established policies, procedures, and service standards to avoid delays, inconsistencies, and improve efficiency.

Management Response 4

Management agrees with the recommendation.

Human Resources is developing a disability claim audit framework designed to ensure that all policies, procedures and services standards are being followed by City staff and the Insurer and to inform continuous improvement strategies. The audit is being developed using a random sample methodology of approximately 5 per cent of the City's annual claim volume to ensure adequate breadth and depth of the review. The audit framework will be completed and implemented by the end of Q4 2022.

Findings and results of the disability claim audits will be shared with City staff involved in the administration of LTD and with the Insurer for process improvement and training. The disability claim audit framework will be incorporated into the LTD performance monitoring and reporting framework in development with the City's External Benefits Consultant. This will be completed by Q2 2022 and will be ready for OAG review by the end of Q4 2022.

The Office of the Auditor General has not yet validated any management responses where they have indicated that implementation of the recommendation is completed.

Appendix 1 – About the audit

Audit objectives and criteria

The objective of this audit was to provide Council with reasonable assurance that the City of Ottawa's management of the Long-Term Disability Benefits program is adequate.

Audit objective 1

Assess whether there are clear roles and responsibilities for HRS, Finance Services (Payroll, Pensions and Benefits Service), Branch Managers, and Canada Life to support effective and efficient submission, processing, and termination of LTD claims.

Criteria:

- HRS has clear and documented roles and responsibilities for key City and Canada Life employees involved in the management of LTD claims and benefits.
- HRS communicates roles and responsibilities for key City and Canada Life employees involved in the management of LTD claims and benefits.

Audit objective 2

Assess whether there is adequate guidance, procedures, and service standards to support effective and efficient submission, processing, and termination of LTD claims.

Criteria:

- HRS has guidance, procedures, and service standards in place to assist key City employees involved in the management of LTD claims and benefits
- Guidance, procedures, and service standards are accessible to key City employees involved in the management of LTD claims and benefits.

Audit objective 3

Assess whether processes and practices are effective to support consistent and efficient delivery of long-term disability requirements in accordance with HRS policies, procedures, and service standards.

Criteria:

- HRS monitors performance compared to established HRS and Canada Life service standards, and policies and procedures.
- HRS reports performance issues to the City's Senior Leadership Team.
- LTD Claims are managed in accordance with policies, procedures, and established service standards.

Audit objective 4

Assess whether City's health and wellness programs are effective in promoting employee return to work and decreasing LTD claim duration.

Criteria:

- Health and wellness programs are delivered to City's employees and evaluated for effectiveness.

Scope

The scope of the audit included all management and operational activities of long-term disability benefits for:

- City of Ottawa ASO Long Term Disability Policy #59211; and,
- OC Transpo Employee Benefit Trust/ASO Long Term Disability Policy #59213.

Transactions from January 2019 to December 2019 were reviewed. Although also managed by Canada Life, the scope of the audit does not include LTD benefits for the Ottawa Police Service.

Audit approach and methodology

The audit was planned and performed to obtain reasonable assurance that the audit objectives were achieved.

During the planning phase, the audit team conducted interviews and reviewed documents including the City's strategic and operational plans, program documents including forms and assessments, investigation reports, performance reports, issues log and maintenance, policies and procedures, annual reports, collective agreements, and LTD Benefit RFPs and contracts with Canada Life and Mercer Canada.

During the conduct phase, the audit program was executed, which involved the following activities:

- Interviewed staff members involved in activities related to the management of LTD benefits;
- Reviewed and examined relevant documentation;
- Examined a sample of LTD claims;
- Observed processes and activities; and
- Reviewed and analyzed evidence gained through interviews, document review and examination of selected LTD claims and management activities.

Appendix 2 – Roles in LTD Processes from Claim Initiation to Return to Work

Roles	LTD Claim Initiation	Claim Management	Return to Work (RTW)
Disability Management Consultant (DMC)	<ul style="list-style-type: none"> • Sends LTD application forms to employee (EE) at week 8 of sick leave; • Once the EE's signed authorization is received from Canada Life (CL), gathers relevant data, and provides CL with required EE information - within 2 weeks; • Maintains claim details in Parklane³. 	<ul style="list-style-type: none"> • Maintains claim information in Parklane; • Liaises with CL and branch manager (BM) as required throughout the claim, re. modified work options; • Connects with the BM to discuss modified work and changes in claim status, as appropriate. 	<ul style="list-style-type: none"> • Coordinates the RTW meeting with CL and the EE and engages the BM and union representative, if applicable' • Maintains communication with CL. re. EE's progress.
Employee (EE)	<ul style="list-style-type: none"> • Completes LTD forms and submits to CL. 	<ul style="list-style-type: none"> • Actively participates as required by CL. 	<ul style="list-style-type: none"> • Engages with treatment provider(s), CL, and BM; • Actively participates in the RTW process.
Payroll, Pensions and Benefits	<ul style="list-style-type: none"> • Provide DMCs with wage details for CL. 	<ul style="list-style-type: none"> • Not applicable. 	<ul style="list-style-type: none"> • Process required employee transactions as advised by the DMC and manually adjust vacation entitlement.
Branch Manager (BM)	<ul style="list-style-type: none"> • Completes a portion of the Employer Statement and provides relevant history; • Enters an employee sick leave in SAP⁴. 	<ul style="list-style-type: none"> • Not applicable. 	<ul style="list-style-type: none"> • Determines alternative working arrangements based on restrictions provided by DMC; • Conducts a job demands analysis, as required; • Participates in RTW meeting; • Engages with the employee on a regular basis during the duration of the RTW plan.

³ Parklane is the City's health and safety software solutions

⁴ SAP is the City's financial and human resources system

<p>Canada Life (CL)</p>	<ul style="list-style-type: none"> • Begin Claim Initiation Process by providing the City DMC with the employee's signed authorization form, within 2 days of receiving the EE application; • Conduct phone interviews with EE and DMC within 10 business days; • Up to 8 weeks for adjudication. 	<ul style="list-style-type: none"> • Conduct return to work employability meeting within 12 weeks of claim approval; • Follow up with EE and DMC at days 7, 14, 45, 90; • Ongoing claim management including recommendations, coordination, monitoring and services to support the EE's recovery and timely RTW. 	<ul style="list-style-type: none"> • Send RTW notice to employee and DMC at least 3 weeks before the start date; • Coordinate/lead and monitor the RTW process; • Call EE 5 days after being back to work.
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